



## MORTGAGE BULLETIN

Volume XXVII

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Number 24

*Real Estate Economists, Appraisers and Counselors*

### THE HOUSING LEGISLATION OF 1958

**I**N the realm of home finance, the past few months have been a time of rapid and bewildering change. Since the turn of the year, the money market has witnessed one of the most striking turnabouts in history. Similarly, on the legislative scene, shifts in Federal home loan policies and regulations have come thick and fast. What is more, before Congress adjourns, it may put still another sweeping housing measure on the books.

On the whole, the changes have not been designed to give much comfort to the thoughtful, conservative lender. On the contrary, their principal aims have been to relax still further the already easy terms governing U. S. -insured and guaranteed mortgages; to siphon off vast new sums of money from the Treasury; and in general, to expand the role of Government in home finance. A year ago the Housing Act of 1957 was described as "a warning for lenders." To judge by what Congress has wrought thus far during 1958 - and what it threatens to wreak - that warning was amply justified.

In this connection, let us consider first the so-called Emergency Housing Act, which President Eisenhower signed into law on April 1. Several of its provisions commend themselves. For one thing, it increased from 4% to 4½% the maximum interest rate on mortgages insured under Section 803 (Capehart Military Housing), a move which ought to attract more private capital into this lagging program. It also raised the interest ceiling on loans guaranteed by the Veterans Administration from 4½% to 4-3/4%. Finally, it repealed the regulations regarding mortgage discounts approved just 12 months ago. Dropping these unworkable controls represents a victory for sound lending practice.

However, the triumph may not be lasting. It was won only by the smallest of margins in the Senate. Equally significant, in its report to the Upper Chamber, the powerful Senate Committee on Banking and Currency observed that it was recommending the move with reluctance. The lawmakers added: "The Committee will continue its study of this problem in the hope that some more workable solution may be found."

Against these few, and perhaps short-lived, gains must be weighed some heavy losses. The VA loan program is a case in point. Scarcely had its interest rate been hiked when VA, in a separate action, revived the no downpayment mortgage. At the same time, the new Housing Act breathed fresh life into the

direct loan program by extending it for 25 months; stoking it with an additional \$350 million; increasing the maximum direct loan amount from \$10,000 to \$13,500; and adding a brand new section which authorized the VA administrator to reserve direct loan funds under commitments to builders.

The last-named provision, which is due to loom larger in the VA scheme of things, is worth a closer look. Under it, the VA, for a 2% nonrefundable fee, now is authorized to make commitments to builders to reserve direct loan funds for veterans who contract to buy new construction in "housing credit shortage areas." The obvious aim of this approach, which is slated to get under way shortly, is to spur both building and direct lending in such areas. By the same token, in the guise of speeding up paper work, the act struck a heavy blow at the Voluntary Home Mortgage Credit Program, which, against heavy odds over the years, has succeeded in placing with private lenders nearly \$300 million of VA and FHA paper covering properties in remote areas and small towns.

An even greater setback, philosophically and financially speaking, occurred with respect to the Federal National Mortgage Association. In his message to Congress approving the law, the President assailed these and other provisions as "wholly inconsistent with the philosophy of the free enterprise system." For the Act authorized FNMA to spend an additional \$500 million in buying various special assistance liens at par. Furthermore, in a move which recalled the bad old days of Fannie Mae in 1949-50, Congress furnished the agency with an additional \$1 billion, to be used for the special assistance purchasing at par (less commitment and acquisition fees of 1 $\frac{1}{2}$ %) of regular FHA and VA loans, up to \$13,500.

Despite its unconcealed hostility to what amounts to a raid on the Treasury, the Administration to date has released to FNMA \$600 million of the fund. Of this amount, the Agency now has disbursed more than half, and the rate of outlay is mounting rapidly. In one recent week, for example, FNMA committed itself for nearly \$45 million worth of mortgages, a pace which will see the entire \$600 million vanish in the next 6 weeks. Whether the President will make available the remaining \$400 million remains to be seen.

Fannie Mae, incidentally, has been allocating the money to its various regional offices on the basis of previous experience with demand for its services. The branch offices, in turn, have been using the yardstick of first come, first served. As a consequence, most of the Treasury money is flowing out to the West, which traditionally has been an area of capital shortage.

Most observers tend to view such activities with dismay. As one vice-president of the Mortgage Bankers Association of America put it, "I cannot help but feel that this is a disruptive rather than a benign influence in the market. There is bound to be great demand for the limited amounts involved and pressure for more when they are exhausted." This threat, the Senate report makes clear, is by no means an idle one. "If economic conditions worsen and private investors

do not respond," the document observes, "it may be necessary for the Senate to consider increasing this fund later in the season."

Owing largely to the spur of cheap money, both FHA and VA lately have enjoyed a sharp upsurge in activity. In May FHA applications, covering both new and existing dwellings, spurted to 90,000, the highest monthly total in its history. To cope with the heavier work load, FHA has been making some ingenious changes in its operations. Some months ago it unveiled, on an experimental basis, the Certified Agency Program, which, in essence, constitutes FHA-approved mortgagees as authorized agents of the Federal Housing Commissioner. Under this program, as one official noted recently, the lender, in effect, wears two hats: his own and that of FHA.

FHA is mulling over other time savers, including elimination of refunds of application fees; discontinuing FHA form 2570, the so-called Previous Participation Certification; and changing its claim procedure in order to speed up the time needed to get approval for mortgagees to acquire properties by a deed in lieu of foreclosure. None of these ideas, the Agency admits, is revolutionary, and not all will be adopted. However, its general counsel feels that on the whole they will yield greater efficiency in processing.

The upsurge in demand for its services recently had another consequence - FHA, for a short time, ran out of mortgage insurance authority. The crisis, which briefly shut down all 75 field offices, was resolved when Congress, at the request of the President, passed a bill providing for an immediate \$4 billion increase in its authorization.

The lawmakers' action took most observers by surprise. For years some in Congress have viewed FHA as a kind of hostage, whose annual need for new insurance authority could be used to win approval for omnibus housing legislation containing some of their own pet schemes. However, by approving \$4 billion in new authority, instead of the \$1 billion urged by the House, Congress apparently has foreclosed on its own strategy. With FHA in good shape for the next 12 months, the President may be less willing, than in the past, to accept a blanket bill which offends his principles.

Such a bill well may be taking shape right now in the Senate. Known as the Housing and Urban Renewal Act of 1958, it is still in highly tentative form. Indeed, at this writing it is still in Committee in the Upper Chamber, and has scarcely begun the legislative process in the Lower House. Nonetheless, some of its outlines are plain enough to be worthy of comment.

Part of the bill is routine. Among other things, it would increase FHA's mortgage insurance authorization by \$4 billion for the fiscal years 1959-62; increase the maximum loan under Section 221 from \$9,000 to \$10,000 in ordinary areas, and from \$10,000 to \$12,000 in high-cost areas; strengthen the home trade-in program; and raise the maximum mortgage which FNMA could buy in

the secondary market from \$15,000 to \$20,000. Other provisions, however, promise to stir up far more controversy.

For example, the Senate Housing Subcommittee has approved a new rental housing program known as Section 229, which would permit FHA insurance at 100% of replacement cost for dwellings for elderly families built by nonprofit organizations. For similar shelter built for profit, the bill would insure loans up to 95% of replacement cost.

The Senate group also gave the nod to the bitterly contested loan guarantee plan of the U. S. Savings and Loan League. This plan, which would be limited to members of the HLBB system, calls for insurance of the top 20% of conventional loans, with a 90-10 coinsurance feature, by a newly established Home Mortgage Guarantee Corporation. The idea has aroused great opposition among the housing agencies, the Federal Reserve, and most other lenders. Their objections are many and far-reaching, but center largely on the risks involved in underwriting what some view as the equivalent of second mortgages. In addition, critics tend to question whether the proposed insurance premium, currently set at not less than 1%, would be adequate. Whatever may happen to the pending legislation in coming weeks, the fate of this proposal seems highly dubious.

As for public housing, the bill would extend the existing authorization for 70,000 units, and add another 35,000 units. At the same time, it calls for a new public housing policy which would emphasize the need for smaller projects on scattered sites. The latter proposal, which would replace the older project-type public housing, has aroused particular concern in private mortgage circles. A fortnight ago the National Association of Real Estate Boards stated: "We view the current proposals in Congress for individual scattered public housing units, with built-in incentives for renting to higher income groups, as a greater threat to the concept of private home ownership than any proposal that has ever been submitted to the Congress."

Such extravagant, antienterprise provisions well may lead to a Presidential veto, the first of its kind in many a year. If so, the victory will be no more than temporary. For unless the composition of Congress veers sharply toward the conservative next fall, a prospect which scarcely seems likely at this writing, schemes of this kind will be back in full force next year. Plainly the road ahead for private home finance will not be smooth.